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State Water Resources Control Board

Executive Office

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Arnold Schwarzenegger
Governor

NOTICE OF PROPOSED STATE FISCAL YEAR (SFY) 2008/09 STATE REVOLVING FUND (SRF) UPDATED PRIORITY LIST (PRIORITY LIST) AND ESTABLISHMENT OF THE SERVICE RATE

Tuesday, September 2, 2008 – 10:00 a.m.
Joe Serna, Jr. Cal/EPA Building
Coastal Hearing Room – Second Floor
1001 I Street, Sacramento, CA

This announcement is to inform interested and affected parties that the State Water Resources Control Board (State Water Board) will consider adoption of the State Fiscal Year (SFY) 2008/09 SRF Priority List and establish the service charge that may be applicable to SRF loans to fund the administrative costs of the SRF program. These items will be considered at the State Water Board Meeting on September 2, 2008.

Priority List:

The Division of Financial Assistance (Division) has updated the SRF Priority List for SFY 2008/09 in accordance with federal regulations. The Priority List reflects the recommendations from the staff of the Regional Water Quality Control Boards (Regional Water Boards) and State Water Board. The Priority List may be viewed on our website at http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/2008_2009_cwsrf_updated_preliminary_ppl.pdf. If you wish to obtain a paper copy of the Priority List, please contact Mr. Kyle Wooldridge at kwooldridge@waterboards.ca.gov or (916) 341-5744.

The Priority List is based on a five-year planning period. Each project on the Priority List identifies the year the agency expects that financial assistance will be needed. The first year of the five-year planning period is known as the fundable year. It is reserved for those projects that have received a Preliminary Funding Commitment (PFC) at the time the Priority List is adopted by the State Water Board. PFCs are made to the other projects on the Priority List when they complete their applications if the projected cash flow of the SRF program is sufficient to support the projects.

SRF funds can be used for construction of wastewater treatment and water reclamation facilities, correction of non-point source and storm drainage pollution problems, and implementation of estuary enhancement activities. Further information on the procedures for obtaining SRF Financial Assistance can be found in:

- The *Policy for Implementing the State Revolving Fund for Construction of Wastewater Treatment Facilities*:
http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/srf_policy.shtml

- The *Strategy for Implementing State Revolving Funds for Expanded Use Projects*:
http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/downloadedstrategy.pdf

Establishment of the Service Charge:

The State Water Board will establish a service charge rate that may be applied to SRF loans during SFY 2008/09, to provide funding for SRF Program administration costs. Establishing the service charge rate will allow the SRF Program to assess service charges on existing and new loans. The service charge may only be used for program administration costs.

KEY ISSUES AND RECOMMENDATIONS FOR 2008/09 PRIORITY LIST AND ESTABLISHMENT OF THE ONE PERCENT (1%) SERVICE CHARGE

ISSUE 1:

Adoption of the SFY 2008/09 Priority List – In accordance with the Clean Water Act and federal regulations, the Division's staff has updated and published the SFY 2008/09 Priority List. A project must appear on the Priority List to be eligible to submit an application for financial assistance. Division staff solicited input from all nine Regional Water Boards and State Water Board staff. The Division also provided interested parties with the opportunity to add, delete, or modify projects on the Preliminary Priority List.

RECOMMENDATION:

Staff has incorporated all information received on the Priority List and recommends that the State Water Board adopt the SFY 2008/09 Priority List.

ISSUE 2:

Availability of SRF Funds for water quality priorities – The State Water Board is currently implementing the SRF Program and estimates that there will be about \$308 million available for new SRF loans and other forms of financial assistance in SFY 2008/09. The amount of funds available at any time for loans and other financial assistance is based on the SRF's projected cash flow. The cash flow model includes anticipated federal funding, state funds that can be used to fulfill the required state match, repayments from existing financing agreements, projected disbursements for existing funding commitments, the sale of revenue bonds, and a minimum SRF balance of \$25 million. (Federal appropriations and project disbursements are uncertain; the amount available for new loans and other forms of financing might be higher or lower than estimated).

RECOMMENDATION:

The SRF Program is financially healthy. Therefore, the Division recommends that the State Water Board make the funds in the SRF account available to projects in Priority Classes A through D listed on the Priority List and all Needs Categories.

ISSUE 3:

Service Charge Rate - Assembly Bill 1742 authorizes the State Water Board to assess an annual service charge on SRF loans of one percent (1%) of the outstanding balance to be used for SRF program administration costs. Once the service charge is applied, it remains unchanged for the duration of the agreement. The interest on any loan that is charged the service rate will be reduced by the service rate. The resulting interest plus the service rate is equal to the original interest rate. Therefore, the financial assistance recipient's annual repayment will stay the same. The service charge will only be applied to enough loans to meet the approved budget, and can only be used for administration costs.

RECOMMENDATION:

The Division recommends that the service charge be set at 1 percent of the outstanding loan balance.

ISSUE 4:

Disbursement Cap – Currently the Division may disburse up to \$50 million per recipient per year. The Deputy Director of the Division also has the authority to disburse funds in excess of the funding limit, so long as it does not unduly limit other applicants' ability to receive funding commitments during that SFY.

The funding cap was established in order to ensure that SRF funds will be available to as many financial assistance applicants as possible by limiting the amount that one agency can receive per year. However, due to the SRF Program's dynamic cash flow, at times, it has more funds than originally planned. In some cases, it can be beneficial to both the State Water Board and the financial assistance recipient to accelerate the disbursements in excess of the annual funding cap.

RECOMMENDATION:

The Division recommends that the State Water Board continue to authorize the Deputy Director of the Division the discretion to provide an applicant funding in excess of the annual cap of \$50 million per recipient per year if it is beneficial to the SRF Program's cash flow. The Deputy Director of the Division should ensure that exceeding the cap does not unduly limit other applicants' ability to receive funding during that SFY.

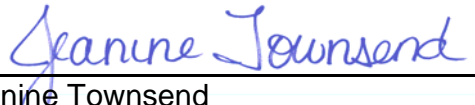
To Submit Comment Letters:

The State Water Board must receive comment letters on the proposed SFY 2008/09 Priority List and service charge **by 12:00 p.m. on August 15, 2008**. After the deadline, comments will not be accepted to allow staff adequate time to evaluate the comments. **Please indicate in the subject line "SFY 2008/09 SRF Priority List."** All comments should be directed to:

State Water Resources Control Board
Jeanine Townsend, Clerk to the Board
1001 I Street, 24th Floor
Sacramento, CA 95814
(916) 341-5620 Fax
commentletters@waterboards.ca.gov

Please direct questions about this notice to Mr. Kyle Wooldridge, Division of Financial Assistance, at (916) 341-5744 or kwooldridge@waterboards.ca.gov.

July 15, 2008
Date


Jeanine Townsend
Clerk to the Board